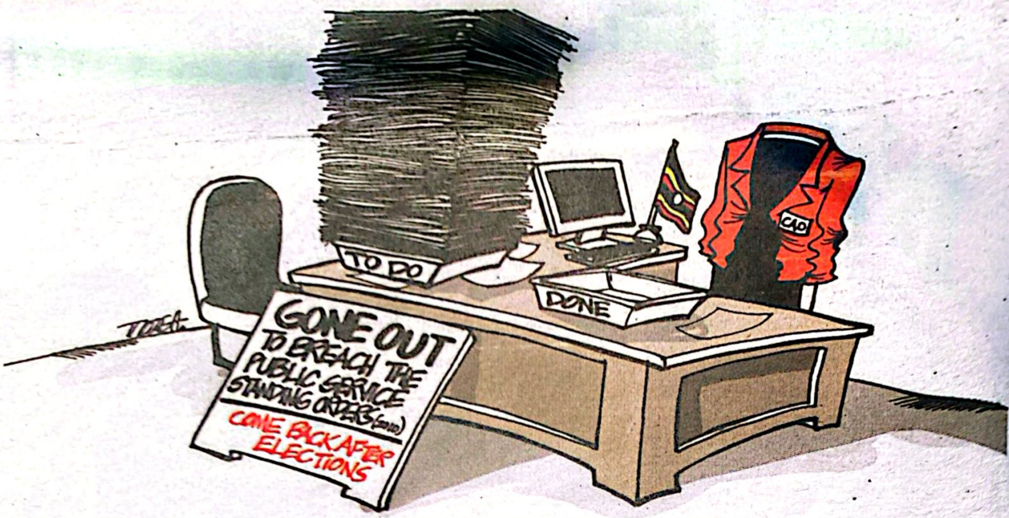
**CARTOON** Minister Daudi Migereko has told chief administrative officers to campaign for President Museveni and NRM candidates.




# How prepared are we for agency banking?

**Nathan Were** Banking

Politics dominates the media these days. Many people are closely following the election campaigns as they enter the home stretch. It is, therefore, possible that we missed perhaps the greatest news in the financial services sector – the passing of the Financial Institutions Amendments 2014 - that will enable banks introduce Islamic banking, bankassurance but most importantly agency banking. The amendments are expected to be signed into law by the President and once the Central Bank issues guidelines, financial institutions are expected to hit the road.

But how prepared are the banks and consumers to embrace this new delivery channel? While some financial institutions have already expressed readiness to commence operations, deployment of the channel will be challenging than many perhaps have imagined. Having been at the helm of supporting agency banking deployments in Tanzania and Zambia, I have picked up a few lessons that can perhaps be valuable to the Ugandan banks as they navigate the waters.

Agency banking is a low cost delivery channel for both the bank and the customers. On average banks will normally spend about $80,000 to set up a brick and mortar branch and spend another $7,000 – 15,000 to keep the branch running on a monthly basis. This cost will significantly crush down with agency banking. It costs under $3,000 to set up an agent and $200 - $500 in operational expenses monthly. This is a huge cost reduction for banks, given that agents can perform many of the basic banking services. For customers, transactional costs will reduce significantly as they will now be able to transact at an agent within their locality. This is critical as it will decongest many banking halls, improve efficiency in service delivery, lower cost of doing business for banks and ultimately improve profitability.

**Build trust and confidence to drive uptake and usage:** In markets we have deployed this channel, we have learned that trust and confidence are critical in driving update and usage. Many people feel comfortable transacting inside the branches due to trust considerations they attach to physical infrastructure. The strategy we have adopted to address this issue has been the deployment of agents in the initial stages of the pilot. We position agents just a few metres away from the branch. We then hand-hold and walk customers to the agents to perform their first transaction. People always need to try something for the first time and go through that experience. The challenge for many banks will be getting their customers to try the service for the first time and continue using it. Customer education on how the channel works will be a key enabler for this.

**Careful selection of agents:** Banks will have to take careful considerations in selecting agents with sufficient capital to service their customers. While banks will need to carefully select agents, they will also need to drive customers to those agents, otherwise agents withdraw from the service if the business volumes are not sufficient to warrant there continued partnership with the bank.

> **The biggest challenge for many banks will be the human resource capacity to run the channel. Given that this is a new venture, banks will need to invest in building capacity of their staff...**

**Get it right on technology:** Bank will need to heavily invest in system enhancements and technological solutions to ensure service uptime and thus availability of the channel at all times. Frequent network failures can significantly impact customer experience and drive the people off the channel.

**Build capacity of staff:** Finally, the biggest challenge for many banks will be the human resource capacity to run the channel. Given that this is a new venture, banks will need to invest in building capacity of their staff in the modalities of agency banking operations. The industry needs to move towards building collective efforts to build capacity of their teams if we are to succeed.

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